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ABSTRACT

Proposition 13 (Jarvis-Gann Initiative) and its impact on higher education and students are analyzed in this report prepared by the National Student Association. The initiative, passed in California in 1978, fixed property taxes at one percent and allowed the level to rise by two percent annually. It is suggested, however, that the beneficiaries of Proposition 13 are businesses and large property owners. The poor, elderly, handicapped, and government workers will feel the burden of diminishing local services and employment. The effects of this legislation on students include: curtailment of academic programs, high rent and utility fees, tuition increases, and loss of city and county jobs. A series of questions and answers or Proposition 13 and its impact, alternative tax relief measures, and long-range prospects are presented. Comparable action that has been taken in other states is also discussed. (SF)

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Target Report

Prop. 13 Tax Revolt

No. 13

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Is Proposition 13 a Populist salvation or a social menace? The passage of Prop 13 in California last June signaled the start of movements to limit taxation. This means massive cuts in schools and colleges supported by taxes. While the scenario in California is unique, the spector of school budget cuts looms over several states. The consequences of indiscriminate tax limitation are described in this report along with tax revolts in other states.

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BACKGROUND ON PROPOSITION 13

The Jarvis-Gann initiative was designed to limit property taxes to no more than 1% of the assessed property value. This ostensibly would result in an average reduction of two-thirds of a homeowner's tax. The initiative fixed property taxes at 1% and allowed the level to rise by two percent yearly. Only a two-thirds majority of the legislature or the voters of California could alter the taxation limit.

The passage of the Jarvis-Gann initiative, known as Proposition 13, was the result of two factors -- California's unique tax situation and the nation-wide anti-government movement. California's immense tax structure contributed heavily to the pro-13 movement. Property tax assessments increased almost 300% in two years. In effect, taxes were almost 3% of the property values. Homeowners were paying from $1000 to $3000 annually. A majority of votors for Prop. 13 were middle-class and upper-middle-class homeowners with large tax payments.

Governor Jerry Brown had also allowed the state tax surplus to accumulate to approxiamtely 4.5 billion dollars. The Jarvis-Gann forces used the surplus to justify their "meat-ax" approach to tax reform. Californians viewed the surplus as another example of bureaucratic excess.

These two factors combined to form an emotional argument for Proposition 13. This was contrasted with the anti-Prop. 13 predictions of huge reductions in governmental services. California voters, however, believed that the government could bear the brunt of a large loss in revenues by eliminating waste and redistributing the surplus. The general feeling throughout California was that the anti-Jarvis predictions were no more than scare tactics without substance.

One month before the initiative vote, tax assessments were mailed out to homeowners. The increases virtually assured the Prop. 13 faction of a landslide victory. The NO-on -13 forces had not impressed upon the public the extensive havoc Prop. 13 would create.

On June 6, 1978 California voters passed Proposition 13 by a 2-to-1 margin.

THE EFFECTS OF PROPOSITION 13

The beneficiaries of Prop. 13 are not the homeowners or renters, but businesses and large property owners. Homeowners will receive only one-third of the expected 7 billion dollar reduction in the state coffers. Renters were promised a lowering of rent if Prop. 13 passed, but as of July 1978, rents have increased in the Los Angeles area by as much as 15%. In addition, businesses will pay lower property taxes in future years.

The burden will be placed on the shoulders of the poor and needy who are reliant upon local services. This includes the handicapped and the elderly, for programs relating to them will either be curtailed or eliminated. Workers in government will be laid off in increasing numbers. Programs started by the cities in the arts will disappear.

While the ramifications of Prop. 13 have not been fully assessed, there have been several decisions made which directly affect higher education. All Los Angeles state schools have eliminated summer classes for 1978. A freeze has been placed on the hiring of new teachers for the coming fall. Localities will lose almost 67 million dollars because they cannot raise matching funds.

To compensate for the expected dearth of funds for education the state surplus was divided among several key departments. The Department of Education received approximately 2.2 billion dollars from the surplus. This was enough to fulfill the budget requirements for fiscal year 79, but this left no additional monies for future budgetary overruns due to inflation and enlargement of programs. In essence, with the loss of the surplus, departments will have to operate with severe deficits after fiscal year 79.

Proposition 13 affects students in a myriad of ways. Classes which would normally be held will be cancelled. Rents and utility bills will be higher for the almost 60% of students who are renters. California Community Colleges are

raising tuitions for this fall in expectation of a 40% budget slash. Minority and women's programs and events will lack funds to continue. City and county jobs which usually go to students will be eliminated. Sales taxes and income taxes will increase, hitting those with low and moderate incomes the hardest.

THE TAX REVOLT

There is no question that tax relief is needed in areas like California, but problems arise with the method of tax reform. The real issues of the tax revolt were obfuscated by the emotional rhetoric of the Jarvis-Gann camp. The problems lie in the inequities of California's tax structure, not in government spending.

Homeowners are hardest hit because of the unstable housing market and the "paper" profits which show intangible wealth. Other sources of revenue, such as corporate stock or exempt property, remain untapped. Waste and duplication in government, of course, can be eradicated to save money, but planning must be made for reevaluation and and streamlining.

There is no doubt that the victory of Prop. 13 can be attributed to the emotional anti-government, anti-taxation mood in California. The Jarvis Campaign was predicated on the slogan, "let's show the politicians who's boss!" With the substantial amount of exposure the Yes-on-13 forces received, taxpayers were easily coerced into voting for immediate cuts without realizing the full impact of those cuts.

The majority of voters did not want cuts in services, especially in the areas of police and fire protection. Thus, there was little emphasis on slashing needed services. The primary incentive was an immediate solution to higher taxes, i.e. a tax cut. This was evident as an alternative proposal, the Behr Bill, which would have cut taxes by only 30% and not been as restrictive on increases, was defeated in favor of Prop. 13.

Other measures are pending in other states which would also limit taxation. These proposals are fairly mild in comparison to the California tax initiative and are less likely to pass both legislatures and statewide voting. Nonetheless,

excessive tax limitation presents a threat to educational institutions on all levels. Tax limitation proposals do not provide sufficient funds for improvements and expansion of programs. Tax reform per se is not injurious, but inflexible and insensitive measures can lead to catastrophic and irreparable damage to universities and colleges. The important point made throughout the California debate is that we must separate the issues of tax relief and indescriminate cuts in budgets of schools. The tax reform "fever" that is sweeping the country has always been with us and has been a particularly emotional issue. It is very easy to allow rhetoric to cloud our minds and prevent clear thinking from dictating our actions.

PROPOSITION 13: ITS IMPACT ON HIGHER EDUCATION AND STUDENTS

WHAT IS PROPOSITION 13?

It is a proposed amendment tc the Constituiton placed on the June 6 ballot through the initiative process. It is commonly referred to as the Jarvis-Gann Initiative.

WHO ARE JARVIS AND GANN?

Howard Jarvis is the 76 year old founder of the United Organization of Taxpayers, a Los Angeles based group. He also heads the Los Angeles Apartment Owners Association.

Sixty-five year old Paul Gann, a retired realator, is the founder and President of the People's Advocate which operates out of a Sacramento suburb. They have both worked for a number of years to limit property taxes.

WHAT DOES PROPOSITION 13 SAY?

Basically there are four provisions:

1) Proposition 13 limits property tax to 1% of the property's full cash value as of March 1, 1975. This assessment value can not be increased by more than 2% each year. However, property changing hands after March 1, 1975, will be assessed at the market value (selling price) of the property at the time of sale.

2) It provides that counties collect property taxes and then distribute them "according to law." (Right now there is no such law which specifies how property taxes are to be distributed.)

3) It requires a 2/3 vote of both houses of the Legislature to increase state taxes. It also prohibits the Legislature from enacting any new taxes based on the value or sale of real property (property taxes).

4) Finally, it requires a 2/3 vote of the "qualified voters" to raise local taxes.

MANY PEOPLE CLAIM THAT THERE ARE MANY UNANSWERED QUESTIONS ABOUT THE WORKING OF PROPOSITION 13. WHAT ARE THEY?

Some of them are:

1) How are the property tax revenues going to be divided? The initiative says "according to law" and there is no law.

2) Is it legal to place a 2% limit on annual increases in value for those properties that do not change hands, while allowing full reassessment of those that are sold? This would mean that two identical houses could be taxed at different rates.

3) What does the term "qualified electors" mean? Does it mean: those voting in an election; those registered to vote; or those of voting age?

WHEN WOULD ALL THIS GO INTO EFFECT?

If it passes, Proposition 13 would go into effect July 1, 1978. The 2/3 vote requirement on the Legislature to raise new taxes would be operative immediately upon passage of the Proposition.

WHAT IS THE ACTUAL TAX REDUCTION FOR HOMEOWNERS UNDER PROPOSITION 13?

The amount will differ for each homeowner, but it will be approximately 64% of their present payments.

WHAT IS THE LOSS TO LOCAL AND STATE GOVERNMENTS?

Different reports cite figures ranging from $5 billion to $8 billion. The generally accepted figure is $7 billion estimated by the Department of Finance.

WHERE WILL THE MONEY COME FROM TO REPLACE ALL THE LOST REVENUE?

The State budget surplus is between $3 and $4 billion--this could finance part of the cut for the first year. The rest will have to come from cuts in state and local programs and increases in other taxes.

WHY CAN'T ALL OF THE REDUCTION BE FUNDED THROUGH THE STATE BUDGET?

The State is mandated by the Constitution and legislation to allocate 2/3 of its $16 billion budget to local governments and school districts. If the remaining 1/3 was used to replace the lost local revenues (thus eliminating all State programs funded by the latter 1/3), it still would not be enough to make up all the revenue lost by local government if Jarvis-Gann passes.

WHAT IS THE ALTERNATIVE TO PROPOSITION 13?

Proposition 8 is the Legislature's alternative tax relief proposal. It will allow residential properties to be taxed at a different rate than other properties. It is sometimes referred to as the "split roll". (Currently all property, commercial and residential, is taxed at the same rate.)

HOW WILL THIS BRING TAX RELIEF?

It will allow Senate Bill 1 (Behr) to go into effect. This legislation gives Californians a 30% reduction in their property taxes. Furthermore, it provides that as assessments go up the tax rate goes down. Thus the property tax rate will never increase by more than the cost of living index. The bill also gives renters a $75 tax credit (double the present $37). The Behr Bill accounts for all revenues that are lost. Thus, no services have to be cut and no taxes have to be increased.

WHERE DOES THE MONEY FOR THE BEHR BILL COME FROM?

Most of the money will come from the State budget surplus while the Legislature imposes revenue limits on both state and local governments. The State will also pay Medi-Cal and welfare costs which are now payed by counties.

HAS ANYONE DONE A LONG RANGE STUDY OF BOTH MEASURES?

Yes, San Mateo county did a study which indicated that taxpayers would be better off in five years with the Behr Bill than with Proposition 13. The study stated that in 1983, homeowners will be paying 60% of the county's property taxes under Jarvis-Gann, but only 41.5% under the Behr bill (San Mateo homeowhers now pay 50.3%). Not only would homeowners by paying a smaller percentage of the county's property taxes under Behr, they will also be paying lower taxes as well. By 1983, 53% of taxpayers would have lower tax bills under Behr than under Jarvis-Gann. By 1988, 79% would have lower property tax bills under Behr.

WHAT HAPPENS IF BOTH PROPOSITIONS PASS?

Proposition 13 goes into effect. The only way the Behr Bill can become operative is if Proposition 13 fails and Proposition 8 passes.

WHAT IMPACT WILL PROPOSITION 13 HAVE ON STUDENT RENTERS?

65% of UC students are renters, living independently of the University and their parents. (We assume the figure for all students are comparable.) These students pay their property taxes through their rents. While the

Jarvis-Gann Initiative promises landlords and other property owners a substantial cut in their tax bills, it is extremely unlikely that any of this relief will be passed on to renters. Additionally, renters will have to pay any increases in taxes and will suffer the loss of services cut back to fund the tax reduction.

The Behr Bill, on the other hand, doubles the amount of money renters can deduct from their income taxes (from $37 to $75 per year). This money will be refunded to renters even if they do not pay any income taxes. The Behr Bill also promises a substantial tax break for landlords.

HOW WILL PROPOSITION 13 AFFECT COMMUNITY COLLEGES?

Since community colleges receive approximately 50% of their $1.5 billion operating budgets from local property taxes, Proposition 13 will obviously have a drastic effect on the system. A large number of community colleges can be expected to close if Jarvis-Gann passes. Some of the plans now under consideration in the Community College Chancellor's office include:

1) increasing all health, parking, and materials fees.

2) eliminating student counseling and services programs.

3) decreasing salaries where possible.

4) curtailing library programs and staffs.

5) eliminating bus service, subsidies for intercollegiate athletics, and subsidies for student activities such as student newspapers.

6) increasing student-faculty ratios by reducing the number of teaching faculty.

WHAT WILL HAPPEN TO PRIVATE SCHOOLS UNDER JARVIS-GANN?

Private schools and their students will only be affected periferally. These students receive about $6 million in State financial aid and millions of dollars in student loans which will be guaranteed by the State. Both of these programs face drastic cuts if Proposition 13 passes. Cuts in these programs will hit private school students particularly hard since they heavily depend on them to pay their large tuitions.

WHAT WILL HAPPEN TO THE UNIVERSITY OF CALIFORNIA AND THE CALIFORNIA STATE UNIVERSITIES AND COLLEGES IF JARVIS-GANN PASSES?

Again the impact is unclear. The UC received $740 million from State funds in 1977-78 plus $4 million for Hastings School of Law. CSUC received $672 million during the same budget year. UC and CSUC received 5.5% and

5% of the State budget respectively. These large budgets will be likely targets for cutbacks.

One thing can be certain, tuition will be sharply increased in both systems. The tuition at UC could increase by as much as $3,100 (it presently $600-$700) and the CSUC could increase by $1,400. (This is assuming that the State will fully fund the projected $7 million defecit resulting from Jarvis, thus each State program's funding will have to be cut by 50%. If that happens, and the UC and CSUC Administration decide not to cut back any programs, but to make up the difference through student fees.)

In addition, building projects would cease, professors laid off, course offerings cut, libraries closed and so on.

HOW WILL PROPOSITION 13 AFFECT STUDENTS OUTSIDE OF SCHOOL?

First, students, as well as everybody else, will suffer from the loss of local services. Among the services which will probably be curtailed are: sanitation, libraries, recreational facilities (including parks and beaches) and any other services paid for out of property taxes.

Second, the Legislature may raise taxes to compensate for local revenue loss. Two of these tax increase options will have a particularly adverse impact on students. One of these taxes, the sales tax, is known as a regressive tax--it is not levied according to a person's ability to pay (as opposed to the "progressive" income tax which is levied according to a person's ability to pay). Increases in a sales tax are well known to impact most heavily against low- and fixed-income groups, including students, the poor, minorities and the elderly. Since few students will receive any property tax relief under Jarvis-Gann, students' taxes will only go up.

The other likely alternative is an increase in income taxes. While many students do not pay these taxes, their parents do. A sharp increase in income tax may negate some of the property tax break that monehowner parent receive under Proposition 13.

WHO GAINS THE MOST BY THE PASSAGE OF PROPOSITION 13?

Business does. Business will get 60% or $4.2 billion of the property tax break provided by the Jarvis-Gann Initiative. In addition, since business sells its property less often than homeowners do, their property tax bills will decline compared to the rest of the population (this is because home values are readjusted only after the property is sold).

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A number of states have recently imposed local limits:

Indiana	There has been a state imposed property tax freeze on local governments and school districts since 1973.
Iowa	1976 legislation limits the growth in certain property tax areas to 6% annually.
Maryland	The 1978 legislature voted to roll back property tax assessments by 10%.
New Jersey	As part of its 1976 tax reform package, the state infused the localities with property tax relief funds while simultaneously placing spending lids on local government. Cities and counties are limited to 5% increases while school district increases are covered by a formula based mainly on the amount of taxable real estate for pupils in districts.
New Mexico	In 1977, the legislature imposed a 10% ceiling on the annual increase in residential property taxes.
Washington	In 1972, voters approved a constitutional amendment limiting property taxes to 1% of market value but still allowing special levies for school district.

In the wake of Jarvis, there is Proposition 13-type legislative or initiative activity pending in about 25 states. Of these, however, only eight are likely to be on the November ballot or to be seriously considered by a legislature before February 1979.

The states in which severe limitation on local property taxation is likely to be a viable issue between now and February 1979 are:

Colorado	Jarvis-type initiative receiving signatures to be placed on November ballot. Also there is an initiative to limit the property tax to 2½ percent of full market value or 5% of family income whichever is less.
Florida	Jarvis-type initiative may be on November ballot.

Idaho	Jarvis-type initiative is likely to receive requisite signatures to be on November ballot.
Michigan	The state spending limitation initiative also contains a section prohibiting local property tax revenues from rising faster than the rate of inflation.
Nebraska	Legislature is in special session to consider a bill to restrict growth of local government spending to short circuit a drive for a constitutional amendment. Also an initiative is likely to appear on the November ballot which would prohibit local governments from increasing their budgets more than 5% per year unless approved by local referendum.
Nevada	Jarvis-type initiative close to qualifying for November ballot.
Oregon	Jarvis-type initiative likely to be on November ballot.
Washington	An initiative to apply the statutory 106% property tax collection limit to school districts (currently exempted from limit) likely to be on November ballot.

The following states all have initiative mechanisms that can be used to change state tax laws and structures. They have been targeted by the national limitation groups for initiative efforts: Arizona, Arkansas, Colorado, Florida, Illinois, Massachusetts, Michigan, Missouri, Nebraska, Nevada, North Dakota, Ohio, Oklahoma and Oregon.